CoinShares

Sector: Crypto

Yielding crypto exposure venturing into the US

Redeye initiates coverage on CoinShares (CS), a leading crypto asset manager holding a European market share of some 40% and set to leverage its decade-long expertise to build a differentiated position in the US. We favour the burgeoning market and the actions CS is taking to broaden its competitive advantage and diversify its income streams through product leadership, attractive acquisitions, and solid partnerships.

Crypto-related ETP leader

CS makes its money from asset management fees related to beta exposure to crypto, mainly Bitcoin (BTC) and Ethereum (ETH) via exchange traded products (ETPs), where it holds a 40% market share based on assets under management (AUM). It is also entering the 15x larger US market following the SEC's approval of BTC exchange-traded funds (ETF), aiming to build a "one stop shop" for crypto exposure. Through its CoinShares Capital Market segment (CSCM), the company leverages capital tied up in its asset management business primarily for fixed income activities and staking (akin to interest on deposits).

Downside limited by "hidden assets" representing 64% of market cap

The structure of the XBT platform requires the management fee to remain in underlying digital assets until XBT investors redeem their investment. The accrued management fee sat at GBP174m (64% of market cap) at the end of Q1 2024. Should XBT's AUM be liquidated, this "hidden asset" would be realised. Additionally, IFRS conceals CS's profitability by treating digital assets and financial liabilities differently. Its operating results thus fluctuate dramatically, and uninitiated investors can be scared off by CS appearing unprofitable during market upturns, or vice versa.

Attractive upside to base with limited downside risk

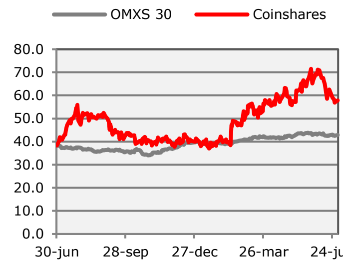
We set a fair value range of SEK45–150, with a Base Case of SEK110. Our Bear Case is a liquidation valuation of current assets plus all the liabilities. It thus disregards certain investments. Regardless of case scenario, we expect the XBT platform to see outflows (although at a slower pace in our Bull Case). Based on our adjusted 2024e financials, CS trade at an EV/adj. EBIT of 2x. Our Base Case implies an EV/adj. EBIT of 7x, which we find fair considering CS's dependency on crypto assets. Catalysts come in the form of crypto prices and earnings releases to move the stock.

RR adj. Key Financials (GBPm)	2022	2023	2024e	2025e	2026e
Revenues	59	82	120	115	115
Sales Growth	-58%	39%	46%	-4%	0%
Gross Profit	50	75	108	103	103
EBITDA	29	54	85	78	75
EBIT	-5	50	91	76	74
Net Income	-16	47	84	62	60
EV/Sales	neg	2.0x	1.3x	1.1x	1.0x
EV/EBITDA	neg	3.0x	1.8x	1.6x	1.5x
EV/Adj. EBIT	neg	3.2x	1.9x	1.7x	1.5x
P/E	neg	4.9x	3.5x	4.7x	4.9x

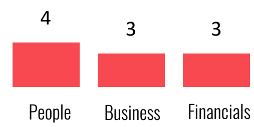
FAIR VALUE RANGE

BEAR	BASE	BULL
45	110	150

CS VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	CS
Market	Mid Cap Stockholm
Share Price (SEK)	55.3
Market Cap (SEKm)	3,678
Net Debt (SEKm)	481
Free float (%)	13%
Avg. daily volume ('000)	60.4

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Investment thesis

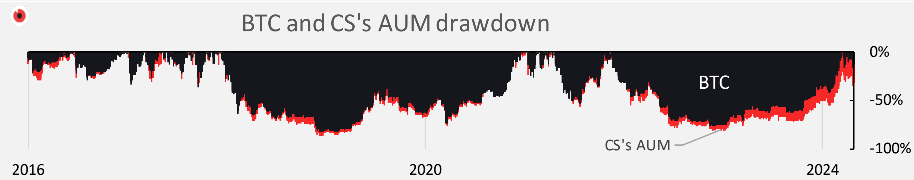
Based on an EV/adj. EBIT of 2x on Redeye's adjusted financials for 2024e, we believe the bears are overly pessimistic about XBT's outflows and miss the nuances with CoinShares' Capital Markets (CSCM). The bears argue that AUM has grown solely through asset appreciation and that CoinShares (CS) is over-earning due to excessive risk-taking in CSCM. On the other hand, the bulls argue that CS has an advantageous cost position with 62% of its AUM held in the XBT platform, which charges 2.5% in management fees, while the competition has lower AUM and charges 0.0–2.0%, making it one of few profitable ETP issuers. The bulls also point to management's track record of acquiring and turning around distressed assets. We see 99% upside to our Base Case of SEK110 based on our DCF model with limited downside, with our liquidation value setting a floor at SEK45 (15% downside). Earnings releases will prove either the bull or the bear argument correct, while crypto prices will have an overarching effect on CS's fundamentals.

Evidence

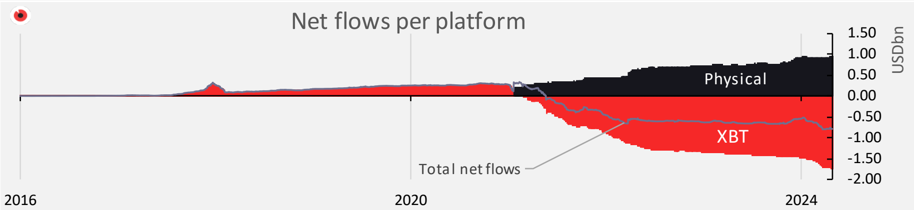
As the bears rightly point out, CS's AUM growth is mainly thanks to price appreciation, with net outflows on a consolidated basis. However, we view this as a shift in the mix rather than a terminal decline; the latter is priced into the stock. For instance, CS's physical platform has seen the second-highest inflow among European exchange-traded products (ETPs), and its total AUM has only marginally underperformed BTC, a proxy for crypto sentiment. Additionally, liquidating the XBT platform would provide GBP174m (64% of the market cap) in cash, bolstering CS's valuation. Although CSCM showed GBP44m in exceptional losses during the tumultuous 2022, with the collapse of FTX (the third-largest crypto exchange at the time) and the decoupling of crypto pair Terra/Luna, we believe the bears' concerns are overstated, as more than 50% of CS's income stems from leveraging the 'float' created by XBT's synthetical structure.

SUPPORTIVE ANALYSIS: Resilience

Relative to the crypto ecosystem, measured by BTC price movements, CS's AUM has only marginally underperformed, despite the majority being deployed in its high-fee XBT platform, implying its AUM is more resilient and stickier than the valuation suggests.



Moreover, as seen in the chart below, CS's physical platform has seen rapid net inflows, while the XBT platform has experienced net outflows. We thus expect the aggregate outflows to be stemmed as the XBT platform becomes a smaller share of the total. Additionally, CS is revitalising the XBT platform by offering cheaper ETP solutions to attract incremental capital through superior brand recognition in the Nordics, which we expect will mitigate outflows further.



Despite severe stress on the crypto economy with the collapse of FTX (the third-largest crypto exchange by volume at the time) and the decoupling of Terra/Luna (among the top ten cryptocurrencies at the time), CS only reported minor losses stemming from its trading with an EBIT of -GBP4.7, on GBP59.0m in revenues, on Redeye's adjusted figures, and was profitable when adjusting for the write-down of FTX (116% recovered during Q2 2024). Although about 30% of the CSCM gains relate to fixed income (mostly short-term reverse repos), where the credit risk is challenging for outsiders to gauge, more than 50% of the income is staking — where CS leverages the synthetic nature of XBT to earn low-risk income by staking XBT's ETH holdings, subject to liquidity requirements. We thus believe the bears overstate CSCM's risk-taking.

Challenge I: Balance revenue mix and enhance CoinShares' offering

XBT represents 62% of the AUM but 81% of the asset management fees. This shifting AUM mix puts pressure on the earnings capacity, and we estimate the physical platforms' AUM must grow 1.5x faster than XBT's outflows to maintain flat management fees. CS has implemented an organic growth plan by increasing its sales and distribution efforts, particularly in key European markets (such as France, Italy, and Spain) where crypto ETPs are not yet fully accessible. Additionally, the company is pursuing an external growth plan through potential new acquisitions.

We anticipate a potential transition period depending on CS's speed in executing its plan. Earnings from the XBT platform may be challenging to sustain despite the platform's cash cow status, although we do not foresee a significant change in revenues given that the Swedish market remains relatively closed and competition still low. This is within a context where management fees from commodity ETFs have stabilised around 0.4%, which is where we expect single-asset crypto ETPs to settle.

Challenge II: Revitalise XBT and enhance income through Capital Markets

XBT was the first ETP to the market, and its design reflects its pioneering status. Primarily, it is a synthetically backed ETP with counterparty risk, and its fees accrue in traditional currencies (fiat) rather than digital assets. This allows CS to keep its management fee in digital assets until the ETP holders redeem their investment, enabling CSCM to use this capital to generate additional income until the fee is safely converted into traditional currencies upon redemption. Additionally, CS can leverage its XBT AUM, provided the hedge remains intact. Currently, CS partially stakes XBT's ETH AUM, subject to liquidity requirements for redemptions, thus generating income that does not need to be shared with the ETP holders.

To protect and sustain this income stream, CS plans to revitalise XBT Provider by expanding its product offering. This strategy aims to slow the net outflows from XBT legacy and continue generating revenues from Capital Markets, yet we expect this income source to decrease partially over time. Nevertheless, the redemption of XBT notes will release working capital, which CS can freely deploy for investment and growth, facilitating the development of new revenue streams.

Valuation: Too cheap to ignore

Our fair value range is SEK45–150 with a Base Case of SEK110. Our Bear Case is built on a conservative liquidation valuation using only current assets but all liabilities. We thus disregard long-term illiquid investments with a carry value of SEK4.9 per share. Across all scenarios, we expect the XBT platform to experience outflows, although the rate is lower in our Bull Case. CS trades at an EV/adj. EBIT of 2x on Redeye Research adj. financials for 2024e. Our Base Case implies an EV/adj. EBIT of 7x and P/adj. E of 8x on 2024e, which we find fair considering its dependency on crypto assets.

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Business description

CoinShares (CS) operates through two main segments: its asset management, where it earns management fees and staking rewards through its ETP offering; and its capital markets segments (CSCM), where it makes gains by trading its excess capital, primarily the accrued management fee and XBT's ETH assets. It also has venture-like investments under its principal investments, which we exclude from operating results.

In 2013, the company's co-founders identified similarities between the digital assets market and the emerging energy markets of the 1990s, thanks to their previous experience running a specialist commodities hedge fund, Global Advisors. A year later, under this name, the company launched the Global Advisors Bitcoin Investment Fund (GABI Fund), the world's first regulated bitcoin investment vehicle, which operated until 9 March 2018. Since then, the group has focused exclusively on the digital asset sector, founding CS and its subsidiaries. It is dedicated to building innovative infrastructure, financial products, and services for the digital asset class. It has offered digital asset exposure and engaged in digital asset trading since early 2013, growing into Europe's largest digital asset manager.

Multifaceted growth strategy focused on:

1) *developing in-house projects*
2) *forming partnerships*
3) *pursuing M&A*

CS's growth strategy is multifaceted, focusing on 1) developing in-house platforms and technologies, such as CoinShares Physical and CSCM; 2) forming partnerships to achieve more rapid market presence and reduce opportunity costs, such as the joint venture with Komainu; and 3) pursuing mergers and acquisitions focused on global expansion, acquiring licences, and increasing AUM, as highlighted by its recent acquisition of the Valkyrie ETF business to enable US expansion. Historically, CS's acquisitions have been very value-accretive and completed at attractive prices. For instance, XBT, its main income contributor today, was in distress when acquired, as its parent company and guarantor, KnCMiner, had declared bankruptcy. Likewise, CS completed the recent Valkyrie acquisition at distressed prices. We expect CS to continue executing opportunistic acquisitions.

Exhibit 1: SWOT analysis

Strength	Weakness
• Market leadership: CS holds a significant share in the European market for crypto-related ETPs, commanding approximately 40% based on AUM, making it one of few profitable ETP issuers. • Proven experience and track record: With a decade of experience in the digital asset sector, CoinShares has built a formidable reputation for reliability and innovation. CS has become trusted among investors thanks to its early entry and ongoing development of new products. • Proven acquisition acumen with key assets acquired under distress.	• Relatively high fees: CS has relatively high fees for its XBT platform. This can lead to net outflows as cost-sensitive investors might seek lower fees.
Opportunities	**Threats**
• Expansion into the US market: Following the SEC's ETF approval, CS bought Valkyrie to capitalise on the rapidly evolving US crypto market. • Development of new products and services: CS continues to innovate by developing new financial products and services, such as staking ETPs and blockchain equity indexes. • Institutional adoption of digital assets: CS is positioned well to capitalise on the trend of more institutions embrace digital assets thanks to its institutionally ready ETPs and expanding ETF offering in the US.	• Increasing competition from crypto-native and traditional finance seeking to offer digital asset exposure, which has resulted in fee pressure. • Market sentiment and volatility: Negative shifts in market sentiment towards cryptocurrencies can reduce trading volumes and AUM, affecting CS's financial performance.

Asset management

The asset management segment allows investors to access crypto-related assets through an established finance infrastructure, essentially making it an intermediary between traditional and crypto finance.

Beta exposure through four platforms

The segment is built on four platforms: retail under the XBT provider brand; institutional under its CoinShares Physical (CSDS); equities via its BLOCK index; and spot bitcoin ETFs via Valkyrie.

XBT and CoinShares Physical offer crypto exposures via ETPs. ETPs offer attractive features for investors looking for crypto exposure, such as reducing the burden and risk of self-custody. They are accessible via traditional brokerage accounts (i.e., Avanza, Nordnet, Interactive Brokers, etc.)

Highest fee and still the highest market share (XBT)

25% European market share despite 2.5% fee versus competitors' 0.0–2.0% fee

In 2016, CS bought XBT Provider (XBT), which offers products for retail investors to track Ethereum (ETH) and Bitcoin (BTC), denominated in EUR and SEK. XBT, the first to market, launched its BTC ETP, XPT Provider Bitcoin Tracker, in 2015, followed by an ETH product in 2017. XBT holds a 25% AUM share of the European ETP market, although more than 90% of its trading volume comes from Sweden. XBT's products have historically represented most of CS's AUM and are its primary income source, with high fees of 2.5% versus the competition's 0.0–2.0% fee. The XBT platform accounts for about 60% of CS's AUM and 80% of its asset management fees. XBT has experienced outflows over the past few years, although most AUM appears sticky. This can partly be explained by short-term traders and speculators having seen better options to express their views via derivatives etc on exchanges. Long-term investors, however, seem to appreciate the simplicity of having their holdings in their regular brokerage account.

XBT's structure results in a "float", which CS leverages for efficient capital usage

These ETPs employ synthetic replication to mimic the performance of the underlying assets, using a combination of physical digital assets and derivatives managed by CS. If the XBT products remained fully hedged, CS can use the AUM for its own trading, creating a "float". This primarily consists of staking (akin to earning interest on bank deposits) part of XBT's ETH (subject to liquidity requirements), which accrues to CS and is reported as staking income in the CSCM segment.

Due to XBT's structure that CS inherited – with the management fee generated in fiat (e.g., SEK, EUR) – CS elects to hold the management fee in digital assets until the XBT noteholders redeem their investment and can safely be converted into fiat (see *Immature accounting frameworks create opportunities p.19* for more details). In the meantime, however, the CSCM segment uses the accrued fee to earn extra income, the only restriction being that the capital is kept in the same underlying asset as it is hedging.

Revitalising the XBT platform to capture incremental capital in the Nordics through superior brand recognition

The high fee structure and investors realising their gains have resulted in XBT seeing net outflows over the past few years. CS plans to revitalise the XBT platform during 2024 and mimic its CoinShares Physical offering with the same institutionally friendly structure and fees to counter this trend and capture incremental capital through its superior brand recognition in the Nordics. (See *Institutional-grade ETP platform (CoinShares Physical).*)[1] The first step in this process has been completed with the rebranding of XBT Provider as CoinShares XBT Provider. The second step is to roll out an expanded product offering in the second half of 2024.

Institutional grade ETP platform (CoinShares Physical)

Launched institutional grade ETP platform in 2021

In response to a shifting client base increasingly favouring institutional investors, CS introduced CoinShares Physical in 2021, a new platform for ETPs based on physical replication. Unlike XBT, which

[1] While the new XBT products will be a carbon copy of the physical platform, the XBT platform is used as the issuer due to its superior brand recognition in Sweden and as it already holds an FSA licence.

is synthetically hedged and sees ETP holders having counterparty risks towards CS, the Physical platform is collateralised with the underlying assets placed in special purpose vehicles (SVPs), effectively mitigating the ETP holders' counterparty risk.

Second highest inflow among European ETPs

While the investors in CoinShares Physical are predominantly still retail, CS views this platform as a crucial step in attracting European institutional investors. It launched physical ETPs for BTC in January 2021 and ETH in February 2021. Since then, CS has expanded the offering to 15 different cryptocurrencies and indices, including staked ETPs, where CS shares the staking rewards with the ETP noteholders. The Physical platform accounts for 20% of the AUM and 17% of the total management fees. Since its launch, the platform has seen the second-highest net inflow at USD955m and its AUM has grown 85% annually, although part of this is through asset appreciation.

Attractive fees and enable ETP investors to earn a yield

The management fees are competitive, in the range of 0.0–1.5%, depending on the underlying asset. For its staked products (where the coins are staked and earn a yield), CS has typically waived the management fee and instead shares the yield with the ETP holder. Effectively, CS earns a spread between the staking reward yield (which varies daily) and the yield promised to noteholders. CS can offset the staking rate risks by reintroducing the management fee if staking becomes unprofitable. Unlike the staking rewards earned on the excess ETH holdings on the XBT platform, those earned via the CS Physical platform are recognised in the asset management segment for accounting purposes.

Solidifying its position in the DACH region while expanding across Europe

CoinShares Physical is mainly present throughout the DACH region. CS aim to broaden its European footprint with this platform by entering new markets, such as France and Italy. Additionally, it is solidifying its position in the DACH region through enhanced partnerships and targeted educational initiatives for institutional investors. The coming Markets in crypto assets (MiCA) regulation, which will fully enter into force by the end of 2024, will likely increase the accessibility and acceptability of cryptocurrencies and related instruments among European institutional investors, which could catalyse inflows from this investor group.[2]

Equity crypto ETF partnership with Invesco (BLOCK)

Equity crypto exposure through Invesco partnership

CS has partnered with Invesco for its Invesco CoinShares Global Blockchain (fees split 50/50), reflecting the CoinShares Blockchain Global Equity Index. The index aims to offer exposure to listed companies that take part or have the potential to participate in the blockchain or cryptocurrency ecosystem. CS manages the composition and measurement of the index, while Invesco manages the distribution. The BLOCK index has a 0.65% management fee and held USD877m in AUM as of Q1 2024. The ETF represents 14% of AUM and 2% of management fees.

Entering the US market with strategic acquisition of Valkyrie

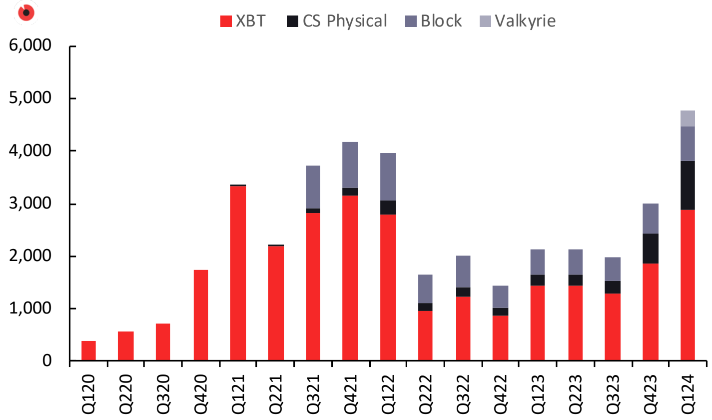
US expansion through attractive acquisition

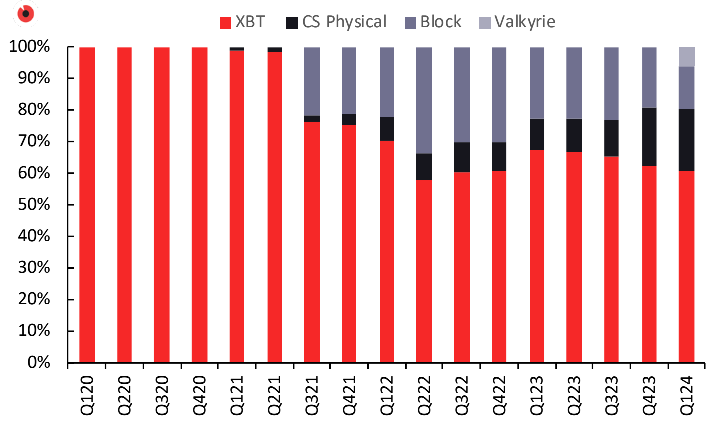
To quickly enter the 15x larger US market, CS exercised its option to acquire Valkyrie Funds LLCs following the SEC's approval of spot bitcoin ETFs in January 2024. Valkyrie's AUM stood at USD378m and it accounted for less than 1% of management fees during Q1 2024. We discuss Valkyrie further in *US Expansion – the next frontier.*

Importantly, from an accounting perspective, only the XBT and Physical platforms' assets and liabilities are consolidated on CS's balance sheet.

[2] We do not discuss MiCA further in this report as its impact on CS is limited expect for the legitimacy it adds to crypto as an asset class.

Exhibit 2: CS's AUM by platform





Source: CoinShares, Redeye Research

Diversifying income streams away from beta exposure

Investing to become more than beta exposure (Hedge Fund Solutions)

Most of CS's AUM is deployed in single-asset passive BTC and ETH ETPs. Part of its strategy is to leverage its decade-long expertise in the digital asset space to build more sophisticated, actively managed products where fees are less competitive and tied to the movement of the underlying assets. It launched its Hedge Funds Solutions segment in September 2023. This segment will cater to institutions' unique needs, offering a 'one-stop-shop' for digital asset exposure. It onboarded its first external limited partner during Q4 2023 and is building a track record.

Building an audited track record through BTC and ETH funds

The two introductory funds available to accredited and professional investors are the Bitcoin and Ethereum Integrated Strategies, which use multiple strategies like call overwrite and quantitative and arbitrage strategies. The Ethereum fund also leverages a staking strategy at times of low volatility. Both funds are eligible for general solicitation, including in the US, allowing them to be marketed to a broad audience. CS's management realises that growing the US footprint of Hedge Fund Solutions will be a multi-year process of establishing an audited track record. Current activities to ensure long-term success involve adding limited partners and refining the product offering.

As Hedge Fund Solution grows, CS expects to dial back its arbitrage strategies, and these funds to become the primary trading vehicle (see *Capital Market Infrastructure (CSCM)*). Currently, the hedge fund solutions are consolidated on CS's balance sheet as CS is the majority investor. However, as the fund grows, CS will eventually derecognise it and only realise a management and performance fee.

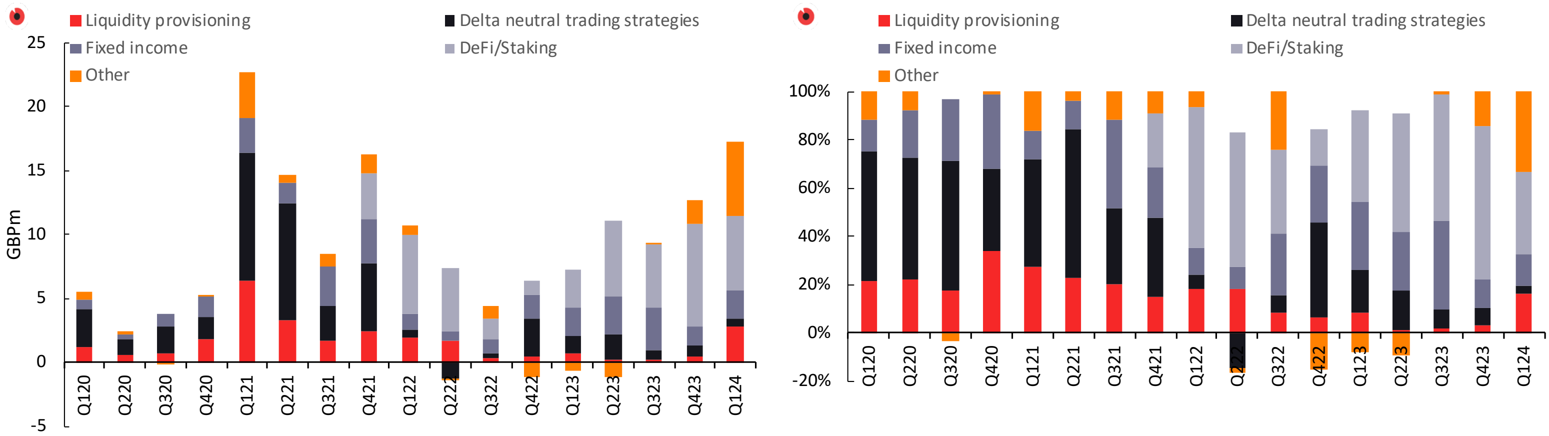
Capital Market Infrastructure (CSCM)

Efficient capital usage leveraging tied-up capital

CSCM's purpose is two-pronged. Firstly, it provides the infrastructure needed and is the vehicle that hedges and collateralises CS's liabilities stemming from its ETP offering. Secondly, CSCM leverages the tied-up capital from the XBT platform to generate extra income. Initially, liquidity provisioning (e.g., market making) and delta-neutral strategies (e.g., statistical arbitrage) were the main income contributors. However, more recently, fixed income (mainly short-term reverse repurchase agreements) and staking activities have dominated. Fixed income is related to loans that CS originates and keeps on its balance sheet, using the accrued management fee that is freely deployable provided it stays in the digital asset from which it was earned.[3] The staked revenue comes from the XBT's ETH holdings. See Exhibit 3 for a breakdown of gains related to the different strategies.

[3] If the management fee was earned from BTC, the accrued fee must be kept in BTC. However, CS can still lend or deploy the BTC in other ways.

Exhibit 3: Income and gains per strategy



Source: CoinShares, Redeye Research

Diverse earnings drivers reduce crypto dependence

We show the different earnings drivers between the strategies in Exhibit 4. While we expect the strategies to change over time – for instance, we believe delta-neutral strategies will be dialled back as the Hedge Fund Solutions gains prominence – as competition increases, CSCM's "moat" is its access to cheap capital via the XBT offering or the accrued fee and the competencies built up over the past decade.

Exhibit 4: Earnings drivers per strategy

STRATEGY	EARNINGS DRIVER
LIQUIDITY PROVISIONING	Gross volume of trades on the XBT platform
DELTA NEUTRAL	Arbitrage opportunities, crypto volatility
FIXED INCOME	Fixed lending opportunities; constrained by the accrued management fee.
STAKING	XBT ETH holdings, ETH price, and yield

Source: Redeye Research

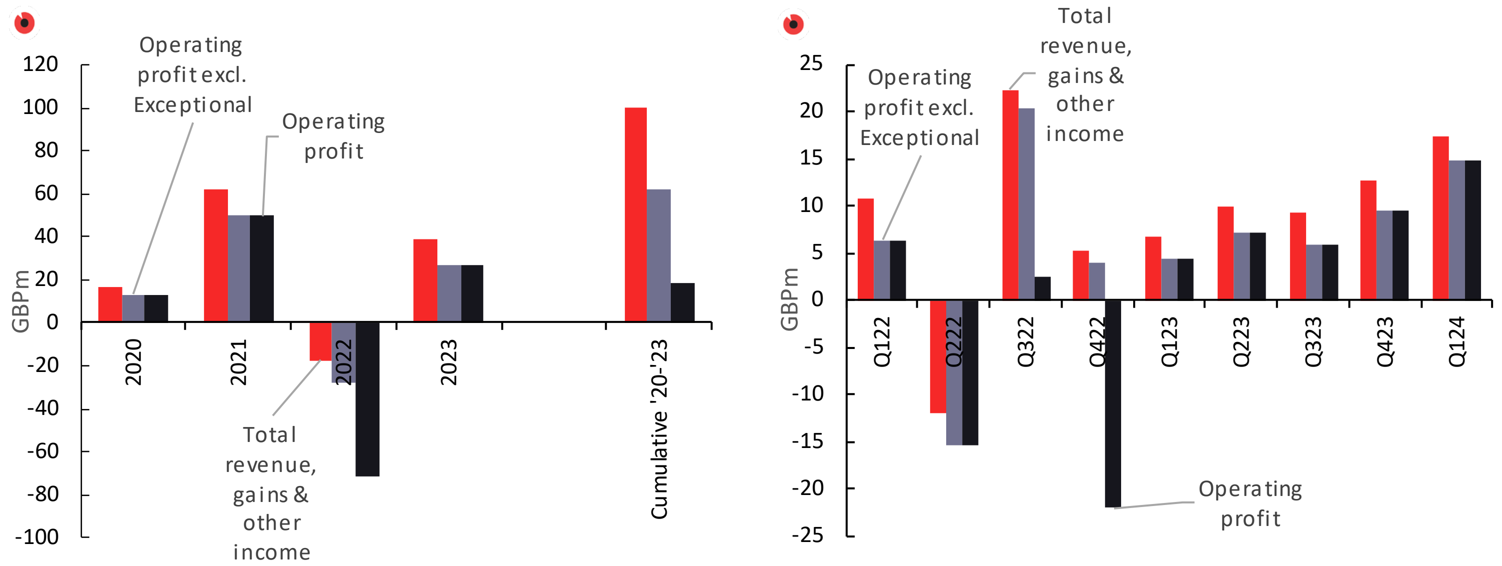
It is hard to gain insight into CSCM's risk-taking, but management is incentivised not to take undue risks

While the CSCM segment has been profitable, it is hard for investors to gain insights into it and the exposures CS has. For instance, when UST (a stablecoin supposed to be USD1 through a complex burn and mint equilibrium model) de-pegged from the USD, CS lost GBP17.9m. Additionally, during FTX's collapse in 2022, CS wrote down its collateral of GBP26m held at FTX. Although CS has sold its claims at a 116% recovery rate (GBP31.3m), these instances highlight the unknown risks associated with the CSCM segment. Despite the "exceptional items" in 2022, this segment has been profitable cumulatively. These instances are thus a "cost of doing business". To ease outside investors' concerns, the management team and board of directors own significant stakes in the business and are thus incentivised not to take undue risks.

Highly profitable through a market cycle

Exhibit 5 shows the performance of the CSCM segment over time. Since trading activities are inherently volatile, we view cumulative performance as indicative of what investors should expect over the long term. CSCM's cumulative operating margin is 19%, not adjusting for exceptional items. Adding back the FTX claims, the cumulative operating margin is 45%. We do not believe the Terra/Luna de-pigging losses should be considered a one-off, as the risk is part of regular trading activities. We also do not necessarily believe the FTX losses should be added back as the recovery appears to stem from FTX's assets increasing in value due to crypto price recovery, but its liabilities (CS's claims) were crystalised in USD rather than cryptocurrencies at the time of the bankruptcy. In other words, if CS's claims were denominated in crypto, they would likely not be fully recoverable.[4]

Exhibit 5: CS's CSCM P&L over time and cumulative 2020–2023



Source: CoinShares, Redeye Research. Based on CoinShares segment reporting

Principal investments

Long-term equity investments in the crypto ecosystem

Principal investments are long-term investments mainly related to companies in the crypto ecosystem. These early-stage investments aid in the distribution of CS's products and services. Following the full write-down of GBP21.9m for FlowBank after the Swiss Financial Market Supervisory Authority FINMA opened bankruptcy proceedings against it, Komainu represent the most significant principal investment.

Komainu, accounting for GBP11.0m of assets (as of Q1 2024), is a digital asset custodian formed in 2018 as a joint venture between Japanese investment bank Nomura, CoinShares, and a digital asset security specialist and leader in custody hardware, Ledger. Komainu is regulated by the Jersey Financial Services Commission and is one of CS's two custodians.

Exhibit 6: Breakdown of CoinShares' largest holdings

NAME	INVESTEE RELATIONSHIP	OWNERSHIP (%)	CARRYING VALUE GBPM	PORTFOLIO (%)	DESCRIPTION
KOMAINU	Investment/JV	14	11.0	45%	Crypto custodian
3IQ			4.4	18%	Disposed at carrying value after Q1 2024
WAO			3.8	15%	Residual holding
OTHER			5.5	22%	
TOTAL			**24.7**	**100%**	

Source: CoinShares, Redeye Research. Note: values adjusted for FlowBank write-down

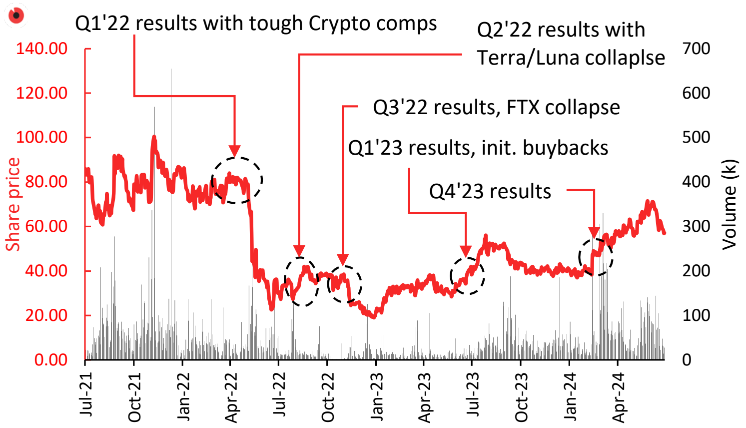
[4] Based on our calculations, if the claims were denominated in crypto, CS's disposal would have resulted in a 4% discount (versus a 16% premium), which is solid considering CS receives the funds immediately rather than when the bankruptcy is concluded.

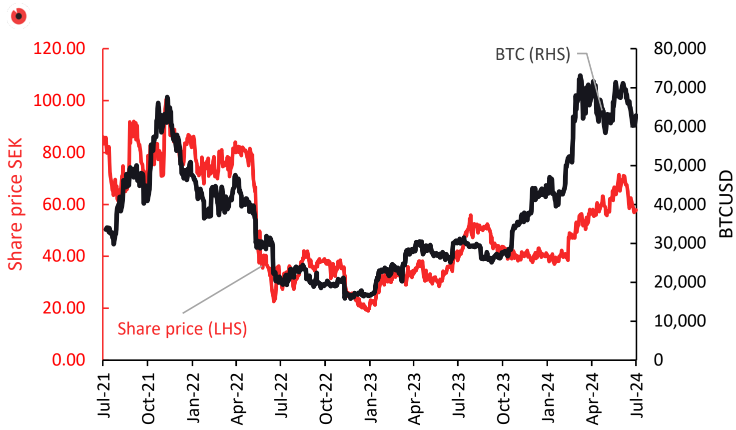
Share price

A tough start since its IPO, but robust market development is being crystalised in the share

CS had its initial public offering in 2021 when market conditions and crypto prices were favourable. The subsequent sharp decline in cryptocurrency prices and broader market valuation compression led to an acute decline in CS's share price. Crypto prices have since stabilised, and in anticipation of the SEC's approval of spot bitcoin ETFs, crypto prices have since increased. CS's share has increased as improved fundamentals begin to crystallise in the share, although it has lagged BTC.

Exhibit 7: CS's share price since IPO and compared with BTC prices





Source: FactSet, Redeye Research

People and ownership

Co-founders hold experience in the commodities trading sector

The CS team includes seasoned experts from the commodities trading sector. Daniel Masters and Russell Newton, two of its co-founders, established Global Advisors, a specialist commodities hedge fund management firm, in 1999. They used their experience from earlier roles, including Daniel Masters' position as the global head of energy trading at JP Morgan and other roles at Royal Dutch Shell, Phibro, and Salomon Brothers.

Jean-Marie Mognetti, the third co-founder of CS, who is also the current CEO and a principal shareholder, joined Global Advisors in 2011. His background as a commodities quant further enriches the company's expertise in the commodities trading space.

Founders hold a large share

Although the management team has a small insider shareholding – excluding the CEO and co-founder Jean-Marie Mognetti's 18% stake – combined with the board, insiders hold 40% of the votes and capital, as seen in Exhibit 8. See *Management and Board of Directors* for a full description of the management team and directors' backgrounds.

Exhibit 8: Insiders' shareholdings

OWNER	PERSON	POSITION	SHARES	VALUE (SEKM)	CAPITAL	VOTES
DANIEL MASTERS	Daniel Masters	Chairman, Co-founder	14,418,185	1,004	22%	22%
JEAN-MARIE MOGNETTI	Jean-Marie Mognetti	CEO, Co-founder	11,876,609	827	18%	18%
FRANK SPITERI	Frank Spiteri	Head of Asset Management	400,453	28	1%	1%
GABI VENTURES LIMITED	Daniel Masters	Chairman	46,853	3	0%	0%
VIKTOR FRITZÉN	Viktor Fritzén	Board Member	40,100	3	0%	0%
CARSTEN KØPPEN	Carsten Køppen	Board Member	11,500	1	0%	0%
JOHAN LUNDBERG	Johan Lundberg	Board Member	2,500	0	0%	0%
RICHARD NASH	Richard Nash	CFO	900	0	0%	0%
LEWIS FELLAS	Lewis Fellas	Head of Hedge Fund Solutions	300	0	0%	0%
BENOÎT PELLEVOIZIN	Benoît Pellevoizin	Head of Marketing & Communications	0			
CHRISTINE RANKIN	Christine Rankin	Board Member	0			
GRAEME DICKSON	Graeme Dickson	General Counsel	0			
PIERRE PORTHAUX	Pierre Porthaux	Head of Quantitative R&D	0			
TOTAL					**40%**	**40%**

Source: Holdings, Redeye Research

There is little institutional interest despite CS being listed on Nasdaq Mid Cap Market

The top ten shareholders control 90% of the shares, dominated by the three co-founders. However, British former macro hedge fund manager and billionaire Alan Howard also controls a large share, as seen in Exhibit 9. Despite trading on the Mid Cap Market, CS has almost no institutional ownership. We believe this is due to its crypto exposure, which institutions have shunned owing to its association with criminal and fraudulent activities.

Exhibit 9: Top 10 largest shareholders

OWNER	SHARES	VALUE (SEKM)	CAPITAL	VOTES
DANIEL MASTERS	14,418,185	972	22%	22%
JEAN-MARIE MOGNETTI	11,876,609	800	18%	18%
RUSSELL PAUL NEWTON	8,096,078	546	12%	12%
ALAN HOWARD	7,913,040	533	12%	12%
ADAM LEVINSON	3,896,618	263	6%	6%
PAUL DAVIDSON	3,200,000	216	5%	5%
DWIGHT ANDERSON	2,987,159	201	4%	4%
MELTEM DEMIRORS	2,749,820	185	4%	4%
VITRUVIUS LIMITED	2,566,213	173	4%	4%
HORSEFERRY TRADING PTE LTD	1,535,604	103	2%	2%
TOTAL			**89%**	**89%**

Source, Holdings, Redeye Research

Crypto – a maturing asset class

A maturing asset class with a capitalisation of close to USD2.5 trillion

Bitcoin, first proposed in 2008 as a peer-to-peer payment system, has evolved from a technological novelty into a significant asset class attracting retail and institutional investors. Initially appealing to technologists and libertarians, its value proposition shifted towards being viewed as "digital gold", leading to broader adoption among retail investors. The turning point came with growing institutional interest, overcoming initial scepticism thanks to regulatory advancements and Bitcoin's resilience. This shift was facilitated by introducing financial products tailored for institutional investors, such as futures, ETFs, and custody solutions, legitimising Bitcoin and establishing it as an investable asset class. After Bitcoin's initial success, other cryptocurrencies emerged, with Ethereum now the second-largest cryptocurrency. Today, the total market capitalisation of all cryptocurrencies stands at almost USD2.5 trillion.

US expansion – the next frontier

SEC has approved BTC ETFs, which traditional asset managers are capitalising on, legitimising the asset class

2024 has seen a turnkey moment in the US crypto industry, following the US court ruling in August 2023 that the SEC had wrongly rejected an ETF filing by the crypto investment firm Grayscale. The ruling paved the way for bitcoin spot ETFs to be listed in the US, which the SEC approved in January 2024. Spot bitcoin ETFs are the most successful new ETF category to launch, with net inflows reaching USD2.8bn within the first three weeks. Hong Kong quickly followed suit, approving Bitcoin and Ethereum ETFs. After the approval of spot bitcoin ETFs, the world's largest asset managers, such as BlackRock and Fidelity, entered the industry. The introduction of ETFs and the entry of the quintessential traditional asset managers further legitimise crypto as an asset class.

CS is using Valkyrie as a loss leader to build a differentiated position

After the SEC approved spot bitcoin ETFs, CS exercised its option to acquire Valkyrie Funds LLC, which manages several US-based products, enhancing CS's European product lineup. Notably, the Valkyrie Bitcoin Fund (ticker: BRRR), a spot bitcoin ETF, received approval from the SEC this January and started trading on 11 January 2024. The Valkyrie Bitcoin Fund is currently smaller, with an AUM of approximately USD505m as of 02 July 2024, attracting about USD497m in net inflows YTD. By comparison, BlackRock's iShares Bitcoin Trust (IBIT) is at USD19bn. BRRR has an annual fee structure of 0.25%, which is competitive with peers. CS knows it cannot compete with BlackRock for low-cost ETFs. It aims to operate its spot bitcoin ETF at break-even and use it as an entry point to the US market while adding more complex ETF options where fees are not as competitive and where it can leverage its infrastructure and decade-long experience in the crypto ecosystem. These include Valkyrie Miner ETF (WGMI) with AUM of USD124m as of 02 July 2024 and Valkyrie Bitcoin Futures leveraged strategy ETF (BTFX) with AUM of USD28m as of 02 July 2024.

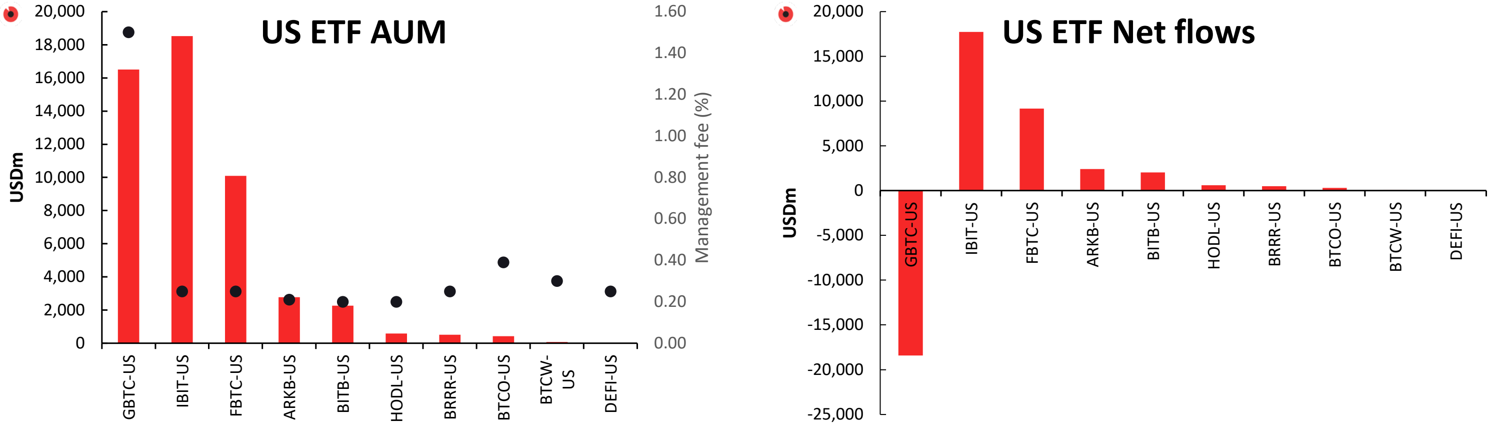
Eleven spot Bitcoin ETFs have been approved, with BlackRock seeing most inflows

Eleven spot Bitcoin ETFs have been approved, with BlackRock's iShares Bitcoin Trust (IBIT) being the largest, following USD18bn inflows. Grayscale Bitcoin Trust (GBTC) was the predecessor investment vehicle before ETFs were allowed, and it accumulated most of the AUM. It was initially structured as an investment trust but has since been converted to an ETF. GBTC originally had a 2.5% management fee, which it subsequently lowered to 1.5%. Spot BTC ETFs management fees are in the 0.19–0.25% range.

The US market is more competitive than the duopoly-like Nordics

Spot bitcoin ETFs have seen positive inflows, with net flows reaching USD14bn as of 02 July 2024, even considering the USD18bn net outflows from GBTC. These are attributed to profit-taking by investors who bought during the 'crypto winter' when GBTC traded at a discount to NAV, the sale of GBTC shares by the bankrupt FTX, and a shift by investors to other, lower-cost bitcoin spot ETFs. GBTC resembles XBT in that it was also first in its market. However, we note that GBTC's capital appears more fleeting than XBT's. CS ascribes this to greater competition in the US versus the duopoly-like nature of the Nordics, which Avanza and Nordnet dominate, combined with a conservative regulator restricting new issuers and a preference for products in native currencies. Exhibit 10 shows US BTC spot ETFs inflows, AUM and associated management fees.

Exhibit 10: US BTC Spot ETFs inflows, AUM, and fees



Source: FactSet

Potential second wave of inflows once investment advisors are onboard

According to CS, investment advisors advising more than USD128tn (SEC figures) cannot recommend bitcoin-related ETFs yet. There could thus be a second wave of inflows, although we would expect most of this to accrue to basic spot ETFs rather than the complex instruments CS aims to use for differentiation.

SEC abruptly shifted its stance on ETH ETFs

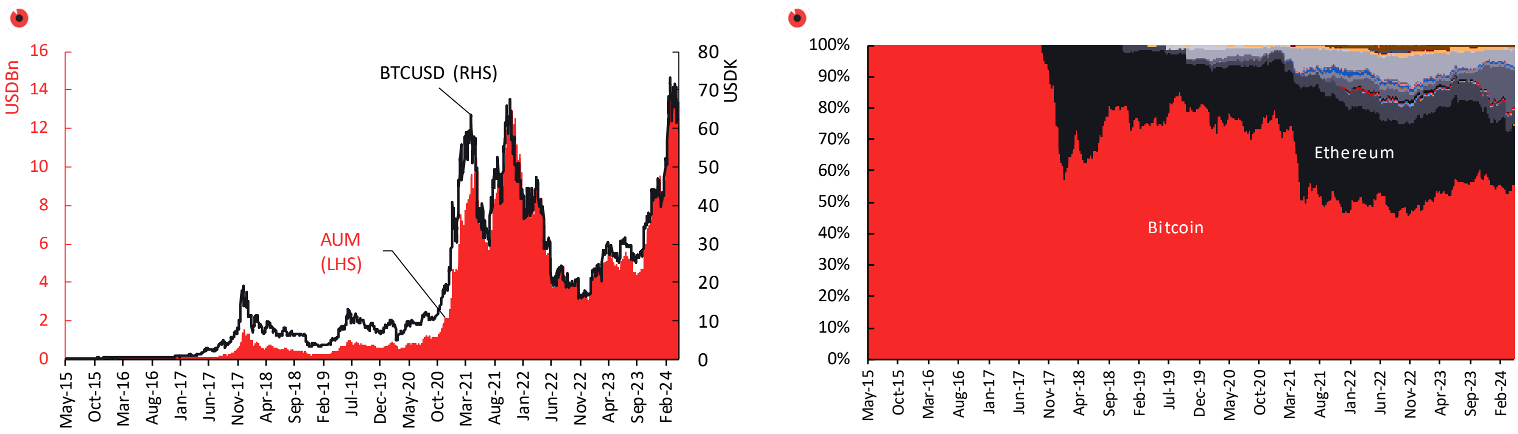
Following the approval of spot BTC ETFs on 23 May 2024, the SEC abruptly shifted its stance and approved ETH ETFs. However, trading of spot ETH ETFs will not begin immediately, as the SEC must approve individual ETF registration statements detailing investor disclosures, a process that may take a few weeks. Assuming ETH ETFs capture a similar amount of capital as BTC ETFs have done versus total market cap, we believe ETH ETFs could represent about USD22bn. Assuming CS were to launch ETH ETFs and capture a similar share of flows as it has for BTC, it could see USD400m in inflows.

European ETP overview

Proliferation of the European ETP market following robust crypto development

The ETP market's AUM has proliferated with crypto prices over the past few years, surpassing USD12bn during the bull market of 2021. AUM fell sharply along with BTCUSD prices during the 'crypto winter' from 2021 to late 2023. With the introduction of spot bitcoin ETFs and anticipation of bitcoin halving (which has historically resulted in a BTC bull market, n=4), BTC prices have increased, with the ETP market reaching its 2021 highs again. Most of the assets are still in BTC and ETH (Exhibit 11).

Exhibit 11: ETP market still dominated by BTC and ETH, and AUM correlates perfectly with BTC movements

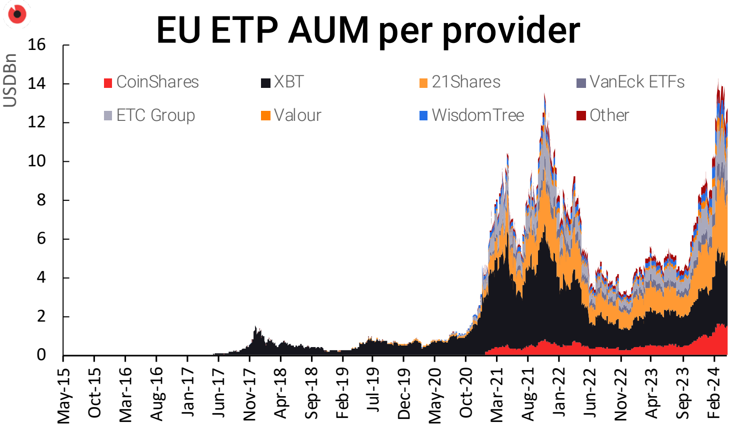


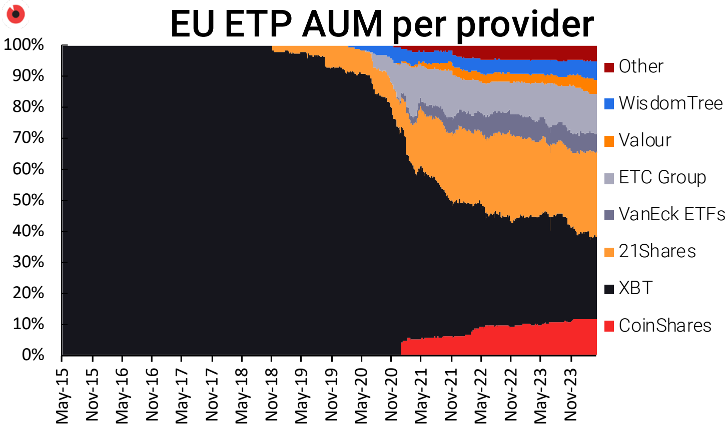
Source ETFBook, Yahoo Finance (BTCUSD price)

XBT is still dominant but losing share

Since CS bought the XBT platform, it has held a leading market share and currently holds a 38% share across its two platforms. Despite the commodity nature of its offering and its high fee of 2.5% annually versus competitors at 0.0–2.0%, XBT commands a 25% market share.[5] Since its launch in 2021, the Physical platform has burgeoned, garnering a 13% share of the European crypto ETP market.[6] Although XBT commands a 25% market share in AUM, it has been ceding market share owing to the proliferation of lower-cost alternatives such as 21Shares, CoinShares Physical, ETC Group. Nonetheless, its AUM has grown due to asset price appreciation. XBT is primarily bought through Sweden, where there is less competition due to a conservative regulator and preference for instruments in the native currency. XBT's decreased market share can thus be explained by investors realising their gains and the European market growing faster than the Swedish, rather than competitors taking market share. Although more competition has entered the European ETP market, the industry remains consolidated, with the top six issuers holding more than 90% of the combined market share.

Exhibit 12: CoinShares' platforms still hold the majority of market share but are losing in EU ETPs





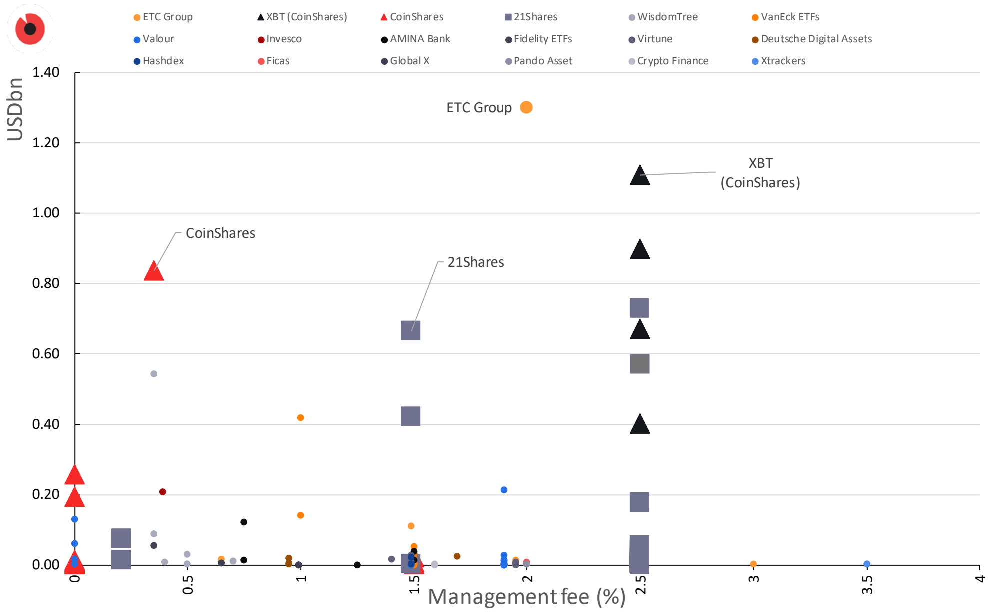
Source: ETFBook

Single-asset ETP fees have fallen rapidly, but most of the AUM remains in high-fee products

XBT's first mover advantage has allowed it to set a fee of 2.5%. However, single-asset ETPs have become commoditised, their fees decreasing rapidly. For instance, CS's Physical ETP for BTC, introduced in 2021, has management fees of 0.35%. We believe this is a reasonable long-term equilibrium, comparable to precious metal ETPs, where fees are 0.0–0.04%. While lower-fee ETPs exist, most of the capital remains in ETPs with fees of 1.0–2.5%, which we consider a testament to the inherent stickiness of asset management. Some ETPs offer a 0.0% management fee. However, the lack of fees is typically offset by the ETP investor sharing staking rewards with the issuer. CS is the primary issuer of staked ETPs with zero management fee. Most other alternatives share the staking reward in addition to the management fee (Exhibit 13).

[5] Liquidity and bid/ask spreads are vectors of differentiation besides management fees. Here CSCM provide liquidity provisioning and ensures tight bid/ask spreads enhancing XBTs offering.
[6] XBT is syntactically backed, and CS sometimes elect to invest in other ETPs, reasonable to assume CoinShares Physical, to collateralise its exposure. For instance, in 2021 CS held GBP994m of other ETPs. Thus, the market share figures can be somewhat circular.

Exhibit 13: CS's XBT brand holds the highest AUM but also among the highest fees



Source: ETFBook

Sophisticated ETPs are attracting capital

The market remains predominantly focused on BTC and ETH. However, there has been a notable shift towards more sophisticated ETPs, including:

1. Single-asset ETPs that offer yields, such as those derived from staking. Staking involves locking digital assets on the blockchain to secure the network and generate rewards.
2. ETPs that provide exposure to the decentralised finance (DeFi) sector.
3. Multi-asset ETPs using advanced indexing techniques to manage portfolios.

These should command a higher fee

CS's sophisticated ETPs, such as those offering staking or representing multiple assets, are housed within its Physical platform (until XBT is revitalised), which has grown its AUM rapidly since its introduction. CS has also been quick to expand its offering in underlying cryptocurrencies or baskets of cryptocurrencies. So far, staked and basket ETPs have attracted 20% of the European ETP AUM. While these products should command a higher management fee, CS has opted to waive the management fee for its staked ETPs and instead earn a spread between the market rate and the rate promised to ETP holders. Should the market rate drop below the rate promised to ETP holders, CS can reintroduce the management fee.

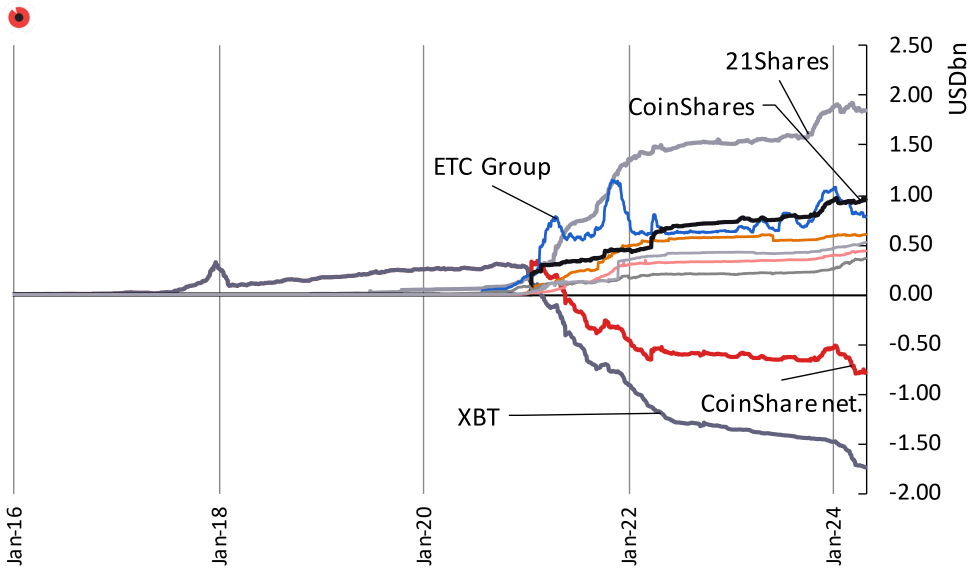
21Shares and CoinShares Physical capturing the most inflows

21Shares has emerged as the primary beneficiary, with inflows increasing rapidly during 2021 and accumulating nearly USD2bn in net inflows since its inception, although inflows have stagnated more recently. By contrast, CS's XBT has experienced significant net outflows of almost USD1.8bn, with most outflows occurring during the crypto bull market in 2021. Outflows appear to have subsequently tapered off until the most recent runup in prices in 2024. The net outflows have partly been mitigated by net inflows of USD955m to CS's CoinShares Physical platform, positioning it as the second-largest recipient of inflows after 21Shares and slightly ahead of ETC Group (Exhibit 14).

Cautious when linking increased digital asset allocations to net inflows

Although the ETP market has grown substantially and digital asset allocations remain low, we are cautious about linking asset allocations to CS's AUM. We expect competition to intensify and put pressure on fees in a rapidly growing digital asset allocation scenario. However, we recognise that higher digital asset allocation could result in higher crypto prices and thus indirectly improve CS's AUM, as has already occurred in anticipation of spot bitcoin ETF approval.

Exhibit 14: Since competition in European ETPs increased in 2020, XBT has seen cumulative net outflows, while other platforms have seen inflows



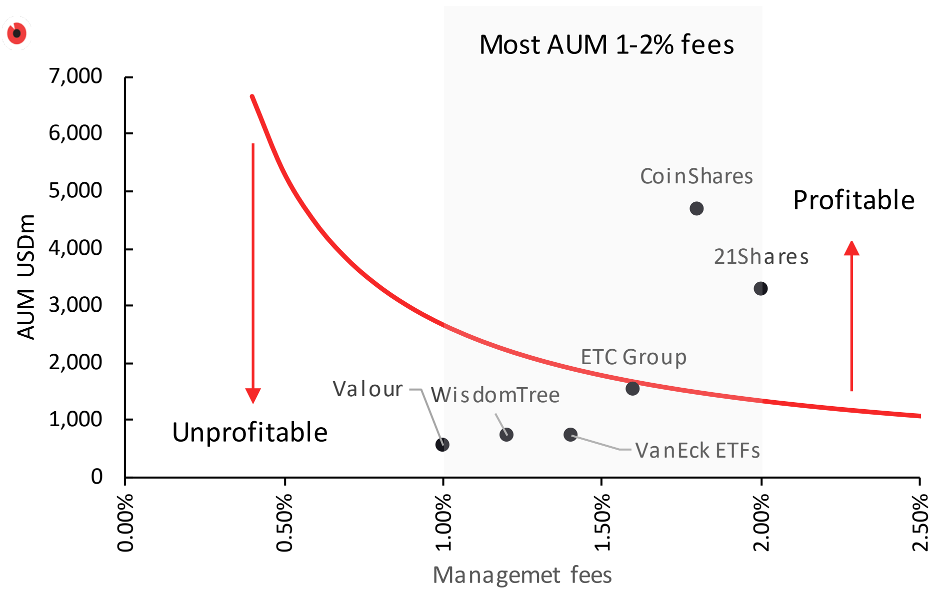
Source: ETFbook

Attractive cost position versus peers

CS and 21Shares are the only clearly profitable players

Based on our analysis, using CS's admin costs as a proxy for fixed costs, only CS and 21Shares are clearly profitable. ETC Group may be profitable depending on the blended fee for its products. Exhibit 15 shows the break-even curve for asset management depending on AUM and realised blended management fee. While there is limited financial data on CS's competitors, we note that CS holds the highest AUM in the industry, with most of this being the highest-fee product on the market. CS should thus be among the most profitable firms in the European ETP market.

Exhibit 15: Estimated profitability curve



Source: Redeye Research. We estimate fixed costs based on CS's admin costs. Above the red line is profitable; below, unprofitable. The X-axis is only for illustrative purposes for black markers

Financials

IFRS conceals CS's profitability

While CS has largely been profitable as a listed company, this is not evident in its IFRS-reported results due to immature accounting standards and the consolidation of the different segments concealing CS's profitability.

Immature accounting frameworks create opportunities.

XBT's structure creates large but concealed assets on the balance sheet

CS has two main asset management platforms: XBT Provider and CoinShares Physical. It set up CoinShares Physical, while it inherited the structure in XBT, which negatively affects cash flows. The primary difference is that the fees in XBT are denominated in fiat (e.g., SEK, EUR), while the fees in CoinShares Physical are denominated in digital currencies. Consequently, CS elects to hedge the accrued fees from XBT in digital assets to avoid becoming unhedged, resulting in a working capital buildup until the ETP investors redeem their notes.[7] Significant working capital releases result once this is redeemed. The accrued fee – the only limitation of which is that it remains in the underlying digital asset – is leveraged within the CSCM segment, primarily through fixed income investments. At the end of Q1 2024, the accrued fee was GBP174m (64% of market cap).

CS is the link between traditional and digital financial markets

In its asset management business, CS issues ETPs for investors, promising them exposure to the underlying cryptocurrency. In return, CS receives cash from investors, who invest in the underlying cryptocurrency to hedge its risk. Essentially, CS is the intermediary between the traditional and digital financial markets.

IFRS treatment of intangible assets conceals profitability

The ETP that CS issues become a financial instrument liability on its balance sheet, following traditional accounting standards where changes to fair value is recorded within operating expenses on the income statement. However, the IFRS treatment for the digital assets acquired to hedge the ETP liability is to consider these intangible assets. The fair value gains and losses are thus recorded in the other comprehensive income unless it reverses a previous loss, when it is recorded in the income statement. Thus, while crypto prices increase, CS's ETP liability rises, creating a fair value loss in the income statement. At the same time, the cryptocurrency that CS owns to hedge the liability rises in value. However, this fair value gain is recorded in the other comprehensive income. The reverse is true during times of falling prices. Due to this dynamic, CS can appear to show operating losses of several times its market capitalisation while being profitable on a comprehensive income basis, and vice versa. IFRS treatment of digital assets conceals CS's profitability and creates large swings in its operating profit that move counter to its economic reality. Due to this dynamic, we adjust CS's P&L based on its alternative EBITDA presentation. See *Adjusted financials* for a full description of our adjustments.

Consolidated accounts subject to GBP/USD rate

We also note that fees on CS's ETPs are accrued in EUR and SEK but hedged to the USD – CSCM's reference currency. Its consolidated accounts are thus subject to FX risk arising from changes in the GBP/USD rate, as CS reports its results in GBP while most of its activities are conducted in USD.

Adjusted financials

Adjusted EBITDA provides a better basis for economic reality

CS provides an adjusted EBITDA calculation and an alternative income statement to better represent its economic reality. We use the alternative EBITDA presentation and make minor adjustments to better represent CS's operating results. Although the alternative EBITDA presentation rearranges the income statement completely, the primary difference is that the fair value change of the ETP liability and the digital assets are netted. Since CS holds excess digital assets due to the accrued management fee, the liability and hedged assets do not perfectly net out in the consolidated accounts.

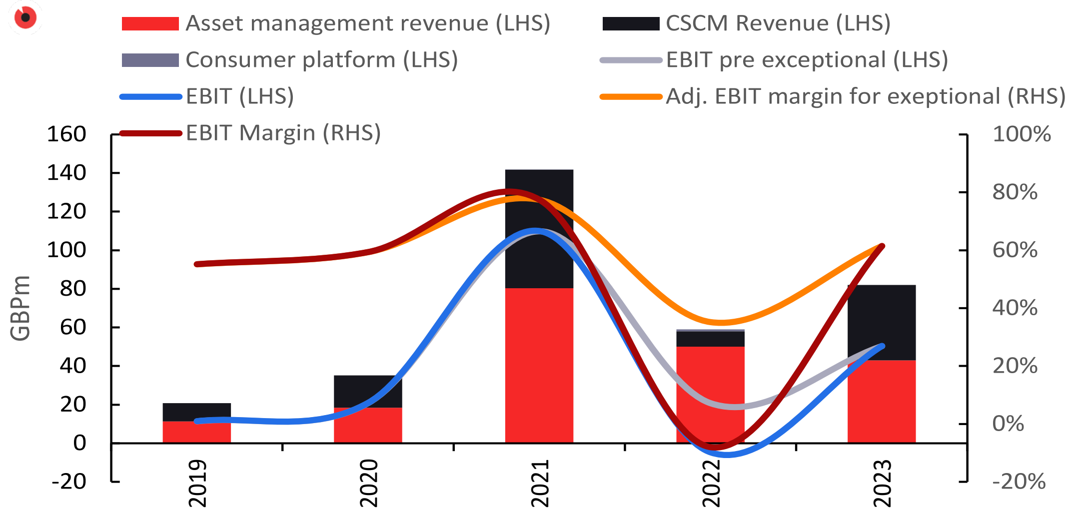
[7] The XBT liability represents the initial digital units (BTC or ETH) minus the accrued management fee in fiat. CS's invest the funds received to buy the same amount of digital assets. If CS's sold its hedged asset to realize the management fee, it would hold a percentage of the original asset (depending on asset price at the time of the sale). This is not necessarily equal to the liability (initial digital units minus accrued management fee).

The excess is attributable to the CSCM's trading activities and is shown as CSMC's revenue in the adjusted EBITDA presentation.

We make minor adjustments to CS's presentation

CS's adjusted EBITDA presentation shows the fair value change in its principal investments as a revenue item. However, we believe CS's economic reality is better represented by moving this line item below the operating results, as we do not consider it related to its core business. Additionally, for 2022, we have reduced CSCM's revenue by the trading loss resulting from Terra/Luna's collapse as we view this as a cost of doing business rather than an exceptional one-off. CS's presentation combined this with the write-down of FTX as a GBP44m exceptional item. We only view the FTX part as exceptional, as it has been fully recovered. Exhibit 16 shows CS's financials since 2019, based on our adjustments.

Exhibit 16: CS's Redeye-adjusted financials



Source: CoinShares, Redeye

Attractive dividend policy with the capacity to increase the dividend when using Redeye Research estimates

To realise shareholder value and signal to the market that it is profitable despite the complex IFRS accounts, CS has introduced a dividend policy to distribute between 20% and 40% of its total comprehensive income, adjusted for currency translation differences. CS will pay dividends in SEK in four quarterly instalments. Each payment is subject to an assessment by the board regarding the financial health and cash requirements before distribution. The current dividend is set at GBP0.13 per share annually, representing an 11% payout ratio on Redeye Research estimates.

Estimates

Asset management fees dominate despite the push to diversify

CS has two segments and a few different income streams. Its most significant income contributor is its assets under management, primarily from the XBT platform, which benefits from crypto price appreciation. Over time, CS has diversified its income streams with the CSCM segment, which currently has four main strategies and different earning drivers, as shown in Exhibit 4. Liquidity provisioning and arbitrage strategies benefit from crypto volatility rather than price direction. However, the dominant strategy – staking rewards – benefits from higher ETH prices and XBT's ETH AUM. We thus expect crypto prices to remain the primary driver of CS's results in the near term.

Fiat conversion is dependent on XBT's redemption pattern, but digital assets can still be leveraged

The volume of redemptions of XBT notes influences CS's cash conversion. As highlighted earlier, CS levies fees on XBT's products daily, but the related cash inflow materialises only when an investor redeems these products. Since the working capital buildup is reinvested and is essentially "free cash flow", although CS is limited in converting the currency, we base our DCF model on adj. free cash flow using pre-working capital cash flow minus investments in intangibles and PP&E. Although this disregards the real working capital changes, these are not material and are dwarfed by the movement of the accrued management fee.

We do not forecast principal investment fair value changes but rather adjust the investments held at book value by CS's P/B as a proxy for how the market would value these assets. We ascribe zero value to FlowBank following CS's write-down announcement. We also adjusted CS's enterprise value by its FTX holdings, which it sold for GBP31.3m (see Exhibit 17 and Exhibit 18.)

Exhibit 17: CoinShares' enterprise valuation

As of 7/02/24	SEK	GBP	Comment
Price	55.3	4.1	
Shares (dil)	71.3	71.3	
Market cap	3,945.3	293.4	
(-) Cash & eqiv.	545.7	40.7	
(-) FTX claims	419.2	31.3	Sold for GBP31.3m
(-) Investments	330.4	24.7	CS's Fair value calculation
(-) JVs/associates	0.0	0.0	Flowbank GBP0
(+) Debt	1,027.0	76.7	Inc. due to brokers
(+) Lease	38.4	2.9	BS value
EV	3,715.4	276.2	

Source: CoinShares, Redeye Research, FactSet

Exhibit 18: Assumptions used for enterprise calculation

GBP/SEK	13.4
P/B	1.0x

Source: FactSet

Asset management

Our main assumptions are outlined below. We do not make any direct forecasts for underlying crypto prices but are aware these will trump our assumptions, considering their historical volatility. Due to the revitalisation plans for the XBT mimicking the Physical platform, we group the revitalised XBT under the Physical platform for forecasting purposes, as their economics should be identical.

- We expect the legacy XBT platform will be the main income contributor over the medium term. We assume management will keep the fee at 2.5% and let the AUM naturally decline instead of reducing the fee to retain the AUM. We consider this rational as each bp (0.01 percentage point) of fee reduction requires a 40bps AUM increase to offset the reduced fee.

- We expect the physical platform to continue to gather assets as it is an attractively priced institutional grade platform. We expect inflows to accelerate during 2025 as the revitalised XBT platform materialises. While it is hard to forecast the income from the Physical platform, as it includes staking rewards that vary daily and fees of 0.0–1.5% depending on the underlying cryptocurrency, we forecast a blended fee of 1% — in line with its historical average.
- We forecast a modest increase in the BLOCK index's AUM with CS's fee at 0.325% (since it is split 50/50 with Invesco).
- We expect Valkyrie to increase its AUM as crypto ETFs in the US experience inflows. Our Bull Case scenario assumes a second wave of inflows as investment advisors and ETH ETFs are approved. We expect blended fee income of 0.5%.

We expect AUM to grow while the blended fee decreases

In summary, we expect CS's AUM to grow while its blended fee across the four platforms declines as the XBT platform represents a smaller share of the AUM. Consequently, we anticipate asset management fee headwinds over the next few years.

Exhibit 19: Asset management assumptions

GBPm	2020	2021	2022	2023	2024e	2025e	2026e	2027e
XBT	1,737	3,137	878	1,868	2,461	2,215	1,993	1,794
Physical		167	130	572	932	1,212	1,575	2,048
Block		878	432	572	487	584	701	842
Valkyrie					444	577	750	975
AUM	**1,737**	**4,183**	**1,440**	**3,013**	**4,324**	**4,588**	**5,020**	**5,659**
XBT fee income	18.4	78.5	45.9	39.9	61.5	55.4	49.8	44.9
Physical fee income		0.9	2.3	2.0	9.3	12.1	15.8	20.5
Block fee income		1.2	1.9	1.4	1.6	1.9	2.3	2.7
Valkyrie fee income					1.1	1.4	1.9	2.4
Fee Abs	**18.4**	**80.6**	**50.1**	**43.4**	**73.5**	**70.8**	**69.7**	**70.5**
XBT	1.1%	2.5%	5.2%	2.1%	2.5%	2.5%	2.5%	2.5%
Physical		0.5%	1.8%	0.4%	1.0%	1.0%	1.0%	1.0%
Block		0.1%	0.4%	0.2%	0.3%	0.3%	0.3%	0.3%
Valkyrie					0.3%	0.3%	0.3%	0.3%
Blended fee %	**1.1%**	**1.9%**	**3.5%**	**1.4%**	**1.7%**	**1.5%**	**1.4%**	**1.2%**

Source: CoinShares, Redeye research

Exhibit 20: Asset management AUM and fee split across platforms

	2020	2021	2022	2023	2024e	2025e	2026e	2027e
XBT	100%	75%	61%	62%	57%	48%	40%	32%
Physical	0%	4%	9%	19%	22%	26%	31%	36%
Block	0%	21%	30%	19%	11%	13%	14%	15%
Valkyrie	0%	0%	0%	0%	10%	13%	15%	17%
AUM	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
XBT fee income	100%	97%	92%	92%	84%	78%	71%	64%
Physical fee income	0%	1%	5%	5%	13%	17%	23%	29%
Block fee income	0%	1%	4%	3%	2%	3%	3%	4%
Valkyrie fee income	0%	0%	0%	0%	2%	2%	3%	3%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: CoinShares, Redeye Research

Capital Markets (CSCM)

The CSCM's capital comes primarily from the accrued management fee resulting from the XBT platform and the ETH holdings on the XBT platform. Our assumptions are set out below:

- Liquidity provisioning: The gross volume of XBT volume drives liquidity provisioning. With a crypto bull market, liquidity provisioning saw a solid start to the year, earning GBP2.8m in Q1 2024. We expect this to moderate going forward.

- Delta neutral strategies are cannibalised by CS's push to launch its hedge fund solutions. As the hedge funds build a track record, we expect this strategy to be transferred into the hedge fund segment. We thus only expect modest income going forward.
- Fixed income is CS's lending to counterparties in the crypto ecosystem. We estimate CS lent at a 7% interest rate in 2023. We consider this rate sustainable, although increased lending competition could put pressure on interest rates. We expect the capital available for lending to increase as CS's accrued fee accumulates, although at a slower pace.
- Staking: As we expect the XBT AUM to decline over our forecast period, we believe the "float" from the XBT platform available to be staked will decrease. We thus forecast that staking revenue in the CSCM will decline over our forecast period. However, staking rewards are affected by ETH price, staking yields, etc., which we do not account for.

Exhibit 21: CSCM assumptions

GBPm	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Liquidity provisioning	4	4	4	1	5	2	2	2
Delta neutral trading strategies	8	8	3	5	3	3	2	2
Fixed income	4	4	5	10	9	15	17	19
DeFi/Staking			14	22	24	23	23	23
Other	1	1	0	0	6			
CSCM	**17**	**16**	**26**	**39**	**46**	**44**	**45**	**46**

Source: CoinShares, Redeye Research

Robust margins are sustainable

We expect CS's gross margin to remain around 90% and its cost base to increase somewhat. Overall, we believe the adj. EBIT margin can stay above 60%. Most of CS's profits are accumulated in Jersey, where the tax rate is zero. It thus only pays minimal taxes on a cost-plus basis in Sweden and the UK. However, profits from the US-domiciled Valkyrie will increase the taxes paid once it becomes profitable, although we do not expect this in the near term. To be conservative, we forecast a 5% tax rate in the future, which is far above CS's historical average (2019–2023) of 0.1%. Exhibit 22 summarises our estimates.

Solid profitability

Exhibit 22: Redeye's adjusted historical numbers and forecasts

GBPm	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Asset management	18	80	50	43	74	71	70	71
CSCM	17	16	26	39	46	44	45	46
Other	0	0	1	0	0	0	0	0
Revenues	**35**	**142**	**59**	**82**	**120**	**115**	**115**	**117**
Revenue y/y		303%	-58%	39%	46%	-4%	0%	2%
Gross profit	35	133	50	75	108	103	103	105
Gross margin		94%	85%	91%	90%	90%	90%	90%
Admin	14	22	21	21	23	26	28	31
EBITDA	**21**	**111**	**29**	**54**	**85**	**78**	**75**	**74**
EBITDA margin (%)	*60%*	*78%*	*49%*	*65%*	*71%*	*68%*	*65%*	*64%*
EBITDA y/y		426%	-74%	84%	58%	-8%	-3%	-1%
EBIT pre exceptional	**21**	**110**	**21**	**50**	**82**	**76**	**74**	**73**
EBIT pre exceptional margin (%)	*59%*	*77%*	*35%*	*61%*	*68%*	*66%*	*64%*	*63%*
EBIT pre exceptional y/y		425%	-81%	143%	62%	-8%	-3%	-1%
Exceptional items	0	0	25	0	-9	0	0	0
EBIT	**21**	**110**	**-5**	**50**	**91**	**76**	**74**	**73**
EBIT Margin (%)	*59%*	*77%*	*-8%*	*61%*	*76%*	*66%*	*64%*	*63%*
Net income	**20**	**112**	**-16**	**47**	**84**	**62**	**60**	**60**
Comprehensive income exl. FX	20	112	-16	47	84	62	60	60
Basic EPS	0.35	1.68	-0.24	0.69	1.25	0.93	0.90	0.89
EPS (SEK)	3.9	20.6	-3.0	8.9	16.8	12.5	12.1	12.0
Share price (SEK)	-	82	19.8	41.3	55.3	55.3	55.3	55.3
Valuation								
Market Cap		470	114	229	293	293	293	293
Enterprise Value		609	neg.	161	153	126	113	96
EV/AUM		15%	neg.	5%	4%	3%	2%	2%
EV/S		4.3x	neg.	2.0x	1.3x	1.1x	1.0x	0.8x
EV/EBITDA		5.5x	neg.	3.0x	1.8x	1.6x	1.5x	1.3x
EV/EBIT		5.5x	neg.	3.2x	1.9x	1.7x	1.5x	1.3x
P/E	-	4.0x	neg.	4.6x	3.3x	4.4x	4.6x	4.6x
Div yield		0.0%	0.0%	0.0%	3.2%	3.2%	3.2%	3.2%

Source: CoinShares, Redeye Research

Valuation

Conservative Bear Case limits downside risk

Our fair value range is SEK45–150, with a Base Case of SEK110. Our Bear Case is based on a liquidation value of CS. Specifically, we use current assets minus all liabilities, ascribing zero value to its portfolio investments valued at GBP24.7m or SEK4.9 per share as of Q1 2024.[8] However, we added the FTX claims of GBP31.3m sold during Q2 2024.

We expect higher AUM growth in the Bull Case thanks to a second wave of ETF inflows, but crypto prices dwarf modelling assumptions

We use a DCF valuation based on our Base and Bull Case estimates, while the Bear Case is based on a liquidation value. We apply a discount rate of 11% based on Redeye's rating model. Considering the historical volatility of crypto assets, we expect crypto prices to dwarf our modelling assumptions for the near future. Furthermore, our valuation remains sensitive to XBT's AUM. While we do not forecast crypto prices in our model, our net flow assumptions remain highly uncertain.

In our Bull Case, we forecast a slower redemption pattern for the XBT platform, while the other platforms grow their AUM slightly faster, resulting in an AUM CAGR of 30% for 2023–2027e. In our Bull Case, we forecast a second wave of ETF inflows from investment advisors and ETH ETF approval. We forecast the CSCM's segment growing slightly faster in our Bull Case due to more accrued capital following higher asset management fees.

In our Base Case, AUM CAGR is 17% for 2023–2027e, but the management fee comes under pressure from the shift in the mix away from the high-fee XBT platform and towards CS's newer and price-competitive options. Exhibit 23 summarises the critical assumption differences between our Base and Bull Cases for 2023–2027e.

Exhibit 23: Assumption differences between Base and Bull Cases for 2023–2027e

	Base Case	Bull Case	Comment
CAGR			
XBT	-8%	-6%	
Physical	22%	32%	
Block	15%	29%	
Valkyire	22%	53%	2024e-2027e
AUM	**17%**	**30%**	
Blended fee (%)	**1.5%**	**1.3%**	
CSCM CAGR	**5%**	**11%**	
Revenue CAGR	**9%**	**16%**	
Avg. EBITDA margin	67%	69%	
Avg. EBIT margin	65%	67%	
Avg. Net income margin	57%	60%	
Terminal EBIT margin	62%	69%	
Terminal growth	2%	2%	

Source: Redeye Research

Although we forecast a 21% decline in XBT's AUM (2024e–2027e) in our Bull Case, versus 27% in our Base Case, XBT represents only 23% of the assets at the end of 2027e in our Bull Case compared with 32% in our Base Case.

Reasonable multiple considering crypto price dependency

Our Base Case implies EV/adj. EBIT of 7x and P/adj. E of 8x on 2024e, excluding the expected write-down, which we believe is fair despite CS's strong return on equity, considering the forecasts' dependability on cryptocurrencies, which is unknowable.

[8] Figures adjusted for FlowBank write-down of GBP21.9m.

Exhibit 24: Redeye Research's Bull Case estimates

GBPm	2020	2021	2022	2023	2024e	2025e	2026e	2027e
XBT	1,737	3,137	878	1,868	2,461	2,276	2,106	1,948
Physical		167	130	572	932	1,398	2,027	2,838
Block		878	432	572	487	682	955	1,337
Valkyrie					444	888	1,509	2,415
AUM	**1,737**	**4,183**	**1,440**	**3,013**	**4,324**	**5,244**	**6,597**	**8,537**
XBT fee income	18.4	78.5	45.9	39.9	61.5	56.9	52.6	48.7
Physical fee income		0.9	2.3	2.0	9.3	14.0	20.3	28.4
Block fee income		1.2	1.9	1.4	1.6	2.2	3.1	4.3
Valkyrie fee income					1.1	2.2	3.8	6.0
Fee Abs	**18.4**	**80.6**	**50.1**	**43.4**	**73.5**	**75.3**	**79.8**	**87.5**
XBT	1.1%	2.5%	5.2%	2.1%	2.5%	2.5%	2.5%	2.5%
Physical		0.5%	1.8%	0.4%	1.0%	1.0%	1.0%	1.0%
Block		0.1%	0.4%	0.2%	0.3%	0.3%	0.3%	0.3%
Valkyrie					0.3%	0.3%	0.3%	0.3%
Blended fee %	**1.1%**	**1.9%**	**3.5%**	**1.4%**	**1.7%**	**1.4%**	**1.2%**	**1.0%**

Source: CoinShares, Redeye Research

Management and Board of Directors

Exhibit 25 CoinShares management team

Name	Position	Shares	Options
Jean-Marie Mognetti	CEO		
	Jean-Marie is the CEO and a co-founder of CoinShares, holding a Master's degree in Mathematical Trading and Finance from Sir John Cass Business School. In his role, he manages the company's proprietary trading arm, capital markets portfolio, and risk management practices. His responsibilities also include ensuring that CoinShares has the necessary infrastructure for strategy execution and meets regulatory compliance standards. Prior to CoinShares, Jean-Marie worked as a quantitative strategist at Hermès Commodities Fund Managers.	11,876,609	
Richard Nash	Chief Financial Officer		
	Richard holds a Master's degree in Sinology from the School of Oriental and African Studies, University of London. He has 10 years of experience in chartered accounting. Prior to his current role, Richard was at Cairn Financial Advisers, where he served as Nominated Adviser to various listed companies. His role included holding the status of Qualified Executive, as granted by the London Stock Exchange.	900	
Frank Spiteri	Head of Asset Management		
	Frank brings over 10 years of experience as an ETP specialist to CoinShares, having previously served as the Head of Distribution and Capital Markets at WisdomTree. Before focusing on ETPs, he spent 11 years as a trader with KBC Financial Products, rounding out a robust background in financial markets and trading.	400,543	
Graeme Dickson	General Counsel		
	Graeme holds a Master's degree (Honours) in International Relations from the University of St. Andrews and a Postgraduate Diploma in Law from the University of Law. He has 14 years of experience as an English qualified solicitor. Previously, Graeme served as Senior Legal Counsel at Aviva Plc. His earlier career included roles at Linklaters, White & Case, Bank of America, and Standard Bank, bringing a robust background in legal counsel to his current position.	0	
Pierre Porthaux	Head of Quantitative R&D		
	Pierre brings nearly 20 years of experience in finance, spanning traditional markets and cryptocurrencies. Before joining CoinShares, he co-founded Blockchain Solutions and Emergence Labs in Paris, focusing on technology consulting and Bitcoin trading technology, respectively. His prior experience includes roles as a trader at prominent institutions such as Nomura, Millennium Partners, Dresdner Kleinwort, and Natixis, where he specialized in statistical and index arbitrage strategies.	0	
Lewis Fellas	Head of Hedge Fund Solutions		
	Lewis Fellas is a seasoned asset manager with over 23 years of experience, including positions at JPMorgan London, various hedge funds in Hong Kong, and the Harvard Endowment in Boston. He has 7 years of experience in the cryptocurrency sector, having founded Bletchley Park, one of the earliest crypto funds, in 2017.	300	
Benoît Pellevoizin	Head of Marketing & Communications		
	Benoît graduated from Celsa - Sorbonne Université, specializing in Communications & Journalism, and the Hasso Plattner Institute School of Design Thinking. He brings over 15 years of experience in marketing, communications, advertising, and branding. Benoît joined CoinShares from Ledger, a leading crypto hardware firm. Previously, he held roles focused on strategy, branding, and innovation at notable firms such as Ogilvy Consulting, SID LEE, M&CSAATCHI, Fred & Farid, and Digitas.	0	

Source: CoinShares, Redeye Research

Exhibit 26 CoinShares Board of directors

Name	Position	Shares	Options
Daniel Masters 	Chairman of the board Daniel Masters, born in 1963, is the Chairman of the Board at Coinshares, with a BSc in Physics from Exeter University and a Master's from Imperial College, London. He has over 30 years of energy trading experience, including leadership roles at Morgan Guaranty Trust Company and Salomon, Inc. Masters was pivotal in developing the UK's energy markets and an early participant in Europe's CFDs market. He currently holds directorships at several companies and is a Council Member of the Tezos Foundation.	14,460,916	
Christine Rankin 	Director Christine Rankin, born in 1964, serves as a Non-Executive Director and Chair of the Audit Committee. She earned her Bachelor's degree in Business Administration and Economics from Stockholm University. Rankin is a former Partner at PWC and has held key roles at organizations such as Spotify, NASDAQ, and Cherry Casino. Currently, she is a board director and audit committee chair at Bone Support Holding AB and 4C Group AB, and holds director positions at Orexo AB and Starbreeze AB (publ).	0	
Johan Lundberg 	Director Johan Lundberg, born in 1977, is a Non-Executive Director with MBAs in Finance and International Strategy from Stockholm School of Economics and Stockholm University, respectively. He is a founding partner of NFT Ventures, a fund specializing in the financial services sector transformation since 2014. Lundberg holds significant roles, including Chairman of Betsson AB and several other companies under Barcelona and Stentulpanen brands. He is also CEO of NFT Growth Partners AB and Stenbuketten Invest AB, with multiple directorships across finance, real estate, and other industries.	2,500	
Carsten Køppen 	Director Carsten Køppen, born in 1964, is a Non-Executive Director with a Diploma in Banking from the Danish School of Banking. With 40 years in financial services, his expertise spans stock exchange equity trading, investment advisory, and capital market operations, particularly in debt and fixed income. Køppen is also a specialist in corporate governance related to the alternative investment fund industry. Currently, he serves as a director on the boards of various Triton entities and Octopus Alternative Investment Fund Management Limited in the U.K. He is also a Council Member of the Aventus Protocol Foundation in Jersey.	9,750	
Viktor Fritzén 	Director Viktor Fritzén, born in 1985, is a Non-Executive Director with an MSc in Finance and Economics from Stockholm School of Economics. His career includes roles as a Global Investment Research Analyst at Goldman Sachs and a Corporate Finance Analyst at GP Bullhound. Fritzén previously served as CFO for LeoVegas Group. Currently, he is the Chair of the board at Appjobs Sweden AB and holds director positions at Beyond Zebra AB, Cithara BidCo AB, Cithara HoldCo AB, StickerApp Holding AB, and Safello AB.	40,100	

Source: CoinShares, Redeye Research

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 point. The maximum score for a valuation key is 5 points.

Rating changes in the report

People: 4

As its founders are still involved in the business and have substantial shareholdings, while the experienced management team has worked together for a long time, CoinShares scores well on its people rating. However, greater insider ownership from non-founder insiders would bolster the rating.

Business: 3

CoinShares' asset-light business and high recurring revenues benefit the Business rating. However, its dependence on crypto prices, narrow revenue base, and quickly evolving industry result in CoinShares receiving a 3 in its Business score. As CoinShares continues to execute on its strategy to build a position in the US and to make CoinShares Physical more prominent, we expect the rating to increase.

Financials: 3

CoinShares earns a 3 in Financials. Its strong points are its recurring revenues and excellent margins, based on Redeye Research's adjusted financials. However, it loses a few points due to inconsistencies, primarily related to the tumultuous 2022 when CoinShares reported an EBIT loss. We expect this to be remedied as time passes.

	2023	2024e	2025e	2026e
INCOME STATEMENT				
Revenues	82	120	115	115
Cost of Revenues	7	12	11	11
Gross Profit	75	108	103	103
Operating Expenses	24	17	28	30
EBITDA	54	85	78	75
Depreciation & Amortization	3	3	2	1
EBIT	50	91	76	74
Net Financial Items				
EBT	47	88	66	64
Income Tax Expenses	1	4	3	3
Non-Controlling Interest	0	0	0	0
Net Income	47	84	62	60
BALANCE SHEET				
Assets				
Current assets				
Cash & Equivalents	26	110	137	151
Digital Assets	2,376	3,605	3,658	3,832
Accounts Receivable	2	3	3	3
Other Current Assets	266	84	75	69
Total Current Assets	2,670	3,802	3,873	4,055
Non-current assets				
Property, Plant & Equipment, Net	3	3	3	3
Goodwill	1	1	1	1
Intangible Assets	10	8	7	6
Right-of-Use Assets	0	0	0	0
Shares in Associates	45	45	45	45
Other Long-Term Assets	3	3	3	3
Total Non-Current Assets	63	60	59	58
Total Assets	2,732	3,862	3,932	4,113
Liabilities				
Current liabilities				
Certificate liability	2,351	3,393	3,427	3,569
Short-Term Debt	1	1	1	1
Short-Term Lease Liabilities	1	1	1	1
Accounts Payable	6	8	8	8
Other Current Liabilities	109	120	103	92
Total Current Liabilities	2,467	3,523	3,539	3,670
Non-current liabilities				
Long-Term Debt	23	23	23	23
Long-Term Lease Liabilities	2	2	2	2
Other Long-Term Liabilities	0	0	0	0
Total Non-current Liabilities	26	26	26	26
Non-Controlling Interest	0	0	0	0
Shareholder's Equity	239	314	367	418
Total Liabilities & Equity	2,732	3,862	3,932	4,113
CASH FLOW				
NOPAT	50	87	72	70
Change in Working Capital	84	9	-27	-38
Operating Cash Flow	-107	94	37	24
Capital Expenditures	0	0	0	0
Investment in Intangible Assets	-1	0	0	0
Investing Cash Flow	7	-1	-1	-1
Financing Cash Flow	-4	-9	-9	-9
Free Cash Flow	-108	94	36	23

DCF Valuation Metrics	Sum FCF (GBPm)
Firm Value	580.3
Net adjustments	17.2
Equity Value	597.4
Fair Value per Share (SEK)	110

	2023	2024e	2025e	2026e
CAPITAL STRUCTURE				
Equity Ratio	9%	8%	9%	10%
Debt to equity	10%	8%	6%	6%
Net Debt	-1.7	-86.2	-113.4	-127.1
Capital Employed	264.8	339.5	392.6	443.7
Working Capital Turnover	-	-	-	-
GROWTH				
Revenue Growth	39%	46%	-4%	0%
Basic EPS Growth	389%	80%	-26%	-3%
Adjusted Basic EPS Growth	385%	61%	-17%	-3%
PROFITABILITY				
ROE	19%	27%	17%	14%
ROCE	19%	27%	19%	17%
ROIC	2%	2%	2%	2%
EBITDA Margin (%)	65%	71%	68%	65%
EBIT Margin (%)	61%	76%	66%	64%
Net Income Margin (%)	57%	70%	54%	53%
VALUATION				
Basic EPS	0.7	1.2	0.9	0.9
Adjusted Basic EPS	0.7	1.1	0.9	0.9
P/E	4.9x	3.5x	4.7x	4.9x
EV/Sales	2.0x	1.3x	1.1x	1.0x
EV/EBITDA	3.0x	1.8x	1.6x	1.5x
EV/adj. EBIT	3.2x	1.9x	1.7x	1.5x
P/B	1.0x	0.9x	0.8x	0.7x

SHAREHOLDER STRUCTURE	**CAPITAL %**	**VOTES %**
Daniel Masters	22%	22%
Jean-Marie Mognetti	18%	18%
Russell Paul Newton	12%	12%
Alan Howard	12%	12%
Adam Levinson	6%	6%

SHARE INFORMATION	
Reuters code	CS.ST
List	Mid Cap
Share price (SEK)	55.3
Total shares, million	71.3

MANAGEMENT & BOARD	
CEO	Jean-Marie Mognetti
CFO	Richard Nash
Chairman	Daniel Masters

ANALYSTS	Redeye AB
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Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories: PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the Company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Disclaimer

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Redeye does not issue any investment recommendations for fundamental analysis. However, Redeye has developed a proprietary analysis and rating model, Redeye Rating, in which each Company is analysed and evaluated. This analysis aims to provide an independent assessment of the Company in question, its opportunities, risks, etc. The purpose is to provide an objective and professional set of data for owners and investors to use in their decision-making.

Redeye Rating (3 July 2024)

Rating	People	Business	Financials
5p	8	5	2
3p - 4p	152	153	40
0p - 2p	23	25	151
Company N	183	183	183

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CONFLICT OF INTERESTS

Rasmus Jacobsson. owns shares in the Company: No

Martin Wahlstöm owns shares in the Company: No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.